

TO: School District Administrators
and
School District Auditors

FROM: Denise Pierce, CPA
School Finance Consultant-Auditor

RE: GASB Statement 34

DATE: June 14, 2002

There has been a lot of disagreement and uncertainty about the implementation of Governmental Accounting Standards Board (GASB) Statement 34, especially as it relates to cash basis entities. This correspondence is intended to address some of those issues.

Most of the audit firms that conduct Missouri school district audits had at least one representative attend either the MSCPA Governmental Accounting Conference or the MSCPA School Audit Conference or both within the past six weeks. At those conferences, speakers considered knowledgeable on GASB Statement 34 addressed the Statement as it relates to entities that follow the cash basis of accounting, which is considered an Other Comprehensive Basis of Accounting (OCBOA). Mr. Mike Crawford (from Oklahoma) spoke at the Governmental Accounting Conference and Mr. Tim Green (from Louisiana) spoke at the School Audit Conference. Both speakers stated that a true cash basis district would not have to report Capital Assets or Long-Term Debt in order to receive an unqualified opinion in the Independent Auditor's Report. DESE concurs with this opinion.

Subsequent to those conferences, School Finance contacted Mr. Rhett Harrell (from Georgia), a noted speaker and author on accounting and auditing issues, to obtain his opinion on this issue. Mr. Harrell's response was that he agreed with the opinion of the two gentlemen noted above, but he didn't necessarily like that opinion. He stated that cash basis was intended to avoid having to do year-end accruals rather than to avoid the reporting of capital assets or debt.

Due to the lack of authoritative guidance for reporting on OCBOA entities, auditor judgment remains. Hopefully the recent discussions regarding OCBOA issues have helped auditors resolve some of the issues surrounding cash basis school districts and the related opinion on the financial statements. School Finance has determined that it will accept unqualified, qualified or adverse opinions. Adverse opinions, however, will be evaluated and followed up on by School Finance, if deemed necessary.

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Information relating to GASB Statement 34 has been placed on School Finance's web page located at <http://www.dese.state.mo.us/divadm/finance/index.html>. Included on this web site are: an overview of the statement, an analysis of OCBOA financial statement issues, DESE's suggested breakdowns for the Statement of Activities, suggested useful lives for depreciation purposes, implementation schedules, and information about the new reporting format.

It is the opinion of School Finance that (1) the new reporting format (the inclusion of the Management Discussion and Analysis and the government-wide financial statements) is required for all Missouri school districts, (2) all four funds (Incidental, Special Revenue, Debt Service and Capital Projects) should be treated as major funds and, (3) for those districts with capital asset records, different capitalization thresholds may be used for capital asset reporting purposes than for inventory and/or insurance purposes.

School districts and auditors must work together in addressing specific application of the Statement to the individual districts. Different situations may require different handling (e.g., the reporting of component units, food service operations, scholarship funds, and self-insurance funds).

School Finance is available to assist with questions as needed. Please feel free to contact me at (573) 751-0357 or dpierce@mail.dese.state.mo.us if you would like to discuss GASB Statement 34 or have other audit-related questions.